HOME
OIL COMPANY LIMITED annual report 1973

HOME OIL COMPANY LIMITED 1973 ANNUAL REPORT

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ANNUAL GENERAL MEETING

The annual general meeting of shareholders will be held at 11:00 a.m. April 26, 1974 at the head office of the Company in Calgary, Alberta.

The Company publishes a book entitled "Supplementary Operating and Financial Information". This book is available to any shareholder, upon request, from the Director of Public Relations.

Home Oil Company Limited

A JOINT ADDRESS
by

OAKAH L JONES
CHAIRMAN & CHIEF EXECUTIVE OFFICER

M. P. PAULSON
Senior Vice President, Operations

R. F. PHILLIPS
Senior Vice President, Finance

To The

Toronto Society of Financial Analysts

TORONTO, ONT. JAN. 3rd 1973

TO OUR SHAREHOLDERS:

The following is the text of addresses given to the Toronto Society of Financial Analysts by senior executives of our Company on January 3, 1973.

Introduction Mr. Oakah L Jones

Gentlemen, I first wish to express our appreciation to you for inviting us to appear here to brief you on our Company.

The late President of Home Oil Company Limited, Mr. R. A. Brown, Jr., last spoke to you eight years ago this month. During the intervening years the Company has experienced substantial growth and this achievement, along with our present situation and future prospects, will be the principal theme of today's presentation.

My part today will be to briefly comment on corporate ownership changes and policy matters. These preliminary remarks will be expanded upon by Ross Phillips, our Senior Vice-President, Finance, and Maurice Paulson, our Senior Vice-President, Operations.

As you know, the ownership of Home has changed significantly in recent years. In 1971 Consumers' Gas acquired an indirect interest in Home through the purchase of Cygnus shares, followed by acquisition of complete control in February, 1972, after the death of Bob Brown.

At the end of 1972 Consumers' had invested approximately $63 million directly or indirectly in Home and had an equity position of roughly 22% in the Company. Control is now held through the direct or indirect ownership of about 50% of the voting shares.

Tomorrow will be the first anniversary of Bob Brown's death on January 4, 1972. It is inevitable that Bob's presence is missed, as it was largely through the efforts of this bold and imaginative man that Home Oil Company grew from a modest beginning into a substantial Canadian independent oil company and occupies a position of leadership in the Canadian oil producing industry. While Bob regrettably is not with us any more, he has left us with a strong organization which, with added strength from Consumers', has made for continued progress. This then is the story we wish to present today.

There has been speculation about Consumers' objective in participating in the petroleum industry through acquisition of an interest in Home Oil and therefore I feel it

would be appropriate to comment in a general way on the rationale for Consumers' stake in Home Oil. Consumers' has entered this area as a logical extension of its participation in Canada's oil and gas industry since we consider that this participation offers an added opportunity for improving Consumers' prospects for growth. Consumers' investment in Home is based on the belief that there are opportunities for exceptional growth in the producing segment of the oil and gas industry and this growth can only be realized through an aggressive program of exploration by Home. I will state, and I am sure that I will be supported by both Maurice Paulson and Ross Phillips, that Consumers' position in Home Oil has not constrained Home's exploration activities. In fact, as you will hear from Ross and Maurice, Home has plans for one of its largest yet exploration programs, and these plans have the full support of Consumers'.

Under Consumers' control, Home will place less importance on diversification and investment in securities of other companies. Home, as policy, will concentrate on petroleum exploration and development and other activities related to the petroleum production industry.

At this time I would like to clarify Consumers' role in the management of Home Oil. Consumers' direction of Home is confined to the policy level. Six long service directors and associates of Bob Brown continue to serve on the Board. Senator Harry Hays of Calgary was elected to the Board in 1972 and it is our intention to broaden western Canadian representation on the Board. Recently The Right Honourable The Lord McFadzean, Chairman of British Insulated Callender's Cables Limited, was appointed Chairman of our U.K. subsidiary and also was elected to the Board of Home Oil Company Limited. I, of course, act as Chairman of the Board and Chief Executive Officer, but there has been no further integration of the senior management of the two companies. I would like to make it clear that once policy has been established, active management of Home is exercised by the senior executives of the company, consulting with me only on major matters.

Since the death of Bob Brown the office of President has been conspicuously vacant. It is our intention to ultimately appoint a new President but for the interim competent direction of the Company's affairs is being provided by the senior management.

I will now turn the platform over to Ross Phillips, our Senior Vice-President of Finance, who will speak on financial, corporate and organizational matters.

Financial
R. F. Phillips

In discussing the financial aspects of the Company, I thought it would be well to review with you the current ownership of Home. Reference was made previously by Mr. Jones to Consumers' acquisition of control and a significant equity position in Home by a number of public and private transactions over the past two years. As a result of repatriation of Home shares, primarily from the United States, the percentage of stock held by Canadians has increased from 67% in 1969 to 89% currently. This certainly qualifies Home as a Canadian owned company.

Mr. Jones has mentioned in general terms the relationship between the management of Home Oil and Consumers' and I will expand on his remarks. The three people who are responsible for the day-to-day management of the Company and reporting to Mr. Jones are Maurice Paulson, Senior Vice-President — Operations, Ron Coleman, Vice President, Secretary and General Counsel, and myself. We have the authority to execute the annual operating plan as represented by the Company's budget. Items of significance outside of the broad terms of the budget require the approval of Mr. Jones, and in the case of very large or unanticipated items, the Board of Directors. This operating framework gives the Calgary executives adequate authority to operate the Company effectively.

Since Home's management last appeared before the Society in 1965, we felt that it would be appropriate to briefly review the progress of the Company since then. Over the eight years which have elapsed, Home has achieved considerable growth as indicated by the following comparisons:

- — Gross revenue has increased from \$22 million to \$39 million, an increase of 77%
- — Cash flow from operations has increased from approximately \$11 million to \$20 million, an increase of 82%.

Shares outstanding have increased from about 4.8 million to 7.8 million. This increase in equity capitalization is entirely consistent with the growth of Company activities and overall capitalization. Throughout the eight-year period Home has paid dividends on both classes of its stock totalling \$24,500,000.

We estimate that earnings for the year just completed will amount to approximately \$7 million before extraor-

dinary items, or about $1 per share, while after allowance for extraordinary items, earnings will amount to about $10 million, or $1.34 per share. These earnings compare very favourably to 1971 earnings at .73¢ per share before extraordinary items.

Estimated cash flow of $2.65 per share for 1972 compares to a cash flow of $2.24 during the previous year. While it is not our policy to release forecasts of cash flow and earnings, we can, however state that our 1973 results will be favourably affected by an anticipated 10% increase of oil and gas liquids production and an expected 13% increase of gas sales. The benefit of higher production will however be partly offset by increased Alberta oil royalties effective as of the first of this year. As the bulk of our reserves are located in high reserve pools in Alberta, Home will be substantially affected by the recently imposed Alberta Mineral Reserve Tax or the alternative increased royalty schedule. Home has calculated that should it elect to pay the higher royalty scale, 1973 earnings would be adversely affected to the extent of $1,300,000. The recent crude oil price increase of .10¢ per barrel will recover less than half of this amount and a further price increase of more than .10¢ per barrel would be needed to regain our previous net return per barrel.

Over the past few years a program was undertaken to provide the Company with adequate working capital and to generally improve its financial position. This program culminated early in 1972 with the sale of a $25 million convertible debenture issue. Working capital improved from a deficit of $28 million at the end of 1970 to a positive working capital position on the order of $4.5 million at the end of 1972 after providing for the current portion of long term debt. With our increased cash flow and improved working capital position, we will be able to finance a substantial portion of our forthcoming exploration and development program with internally generated funds.

Included in the restructuring of our financial picture has been the sale of certain securities. It will be our policy to further reduce the investment portfolio as market conditions and our need for funds dictate. We currently hold 500,000 common shares of TransCanada and the equivalent of 450,000 common shares of the Atlantic Richfield Company. These securities, carried at a cost of $65 million in our accounts, have a current market value of $58 million. It is significant to note that if Home's investment portfolio were to be sold at current market

prices the proceeds would permit liquidation of all but $18 million of our long term debt, which would give Home an exceptionally low debt equity ratio of 0.12 indicating that the Company has a substantial reserve of borrowing power. With this reserve of borrowing power coupled with an increasing cash flow, we do not at this time anticipate raising money through equity financing.

As you are aware, the oil and gas industry is remarkably inconsistent in its method of earnings' determination. I would like to take a moment to comment on our accounting methods. Home Oil, while using the so-called "full cost" method, has taken a relatively conservative position with regard to certain items. The Company's accounting method normalizes income tax, a practice not followed by a number of other companies in our industry. We have also taken a conservative position with regard to foreign exploration costs. For example, our estimated 1972 results provide for a tax deferral of about $1.7 million and as well for writing off exploration costs incurred in Malta amounting to in excess of $1 million. In addition, the estimated 1972 results commented on previously assume the write-off of our investment in a gas processing plant in England as this venture is not living up to our expectations. I have commented on these factors to alert you that a comparison of reported earnings between companies can be misleading.

In our 1973 Budget we have provided for exploration expenditures of up to $18 million compared to $12 million last year. Mr. Paulson will elaborate on this. A large portion of the funds required will be obtained from operations. Questions are often raised as to the future exploration policy of the Company and whether the influence of Consumers' will act as a constraint on exploration. The figures just quoted indicate that Consumers' is encouraging Home's exploration activity. Expenditures for other capital items such as development drilling, production equipment and gas plants are expected to amount to about $6 million in 1973, which is about the same amount as last year.

In the planning area it is pertinent to note that Home, with the support of Consumers', has adopted a more formal approach to planning and allocation of its available capital. As evidence of this, Home established a planning group during 1972 which is developing a strategy for future allocation of funds available for investment in the oil and gas business and formulating long range plans for maintaining and hopefully improving the rate of growth of the Company. At the same time this group is actively considering prospective corporate acquisitions.

Maurice Paulson, our Senior Vice-President of Operations, will now review significant aspects of our exploration and production activities.

Operations
M. P. Paulson

When Mr. Brown appeared before this Society eight years ago we were concerned because development of the Canadian petroleum industry was being retarded by a lack of markets for potential production. Ironically, industry and consumers alike are today worried that our industry will not be able to supply the potential demand for oil and gas. You cannot help but be aware of the so-called "energy crisis" and will already appreciate its implications for our industry. I will therefore only touch on this subject as it relates directly to Home and concentrate on our own operations. It will suffice to say that the emergence of a relatively unlimited demand for our production is not an unwelcome prospect.

Ross Phillips has traced the financial growth of Home Oil over the period 1965 and 1972 and I will complement his statistics by showing slides which indicate the growth of our operations over the same period. In summary, oil and gas liquids production and gas production increased respectively by 90% and 60% to 1972 average daily rates of 24,000 barrels and 99 MMCF. Over the same period throughput of the Home-operated Cremona and Federated oil pipelines increased by 105% to a 1972 daily average of 302,000 barrels. The Company's reserves of gas increased from 602 BCF to 676 BCF after withdrawals of 217 BCF. At the same time oil and gas liquids reserves grew from 115 to 141 million barrels despite withdrawals of 50 million barrels. However, over the last four years we have been unable to maintain our liquids reserves at the 1968 peak, reflecting the declining rate of discoveries by Home and the Western Canadian industry at large.

In spite of the recent modest decline of liquids reserves, Home has a relatively good oil reserve position concentrated in Alberta fields with potential for increased production. As a result we have the potential capability to take advantage of the escalating demand for oil. Plans are now under way to provide for a one-third greater oil production rate from the Swan Hills Unit — the principal source of Home's oil production.

I will now briefly review our current exploration program beginning with Alberta. We consider Alberta to be a mature exploration area but prospects remain for major discoveries, particularly in the deep basin area parallel to

the Rocky Mountain Foothills. Here we feel that there are excellent deep prospects for gas and other shallower oil discovery possibilities. Home intends to pursue an active but selective program in this area and plans to drill several wells in 1973. Low priority is, on the other hand, given to the shallow gas play in southern Alberta on the basis of economics. Our policy is in general to farm out our lands in marginal plays to get other operators to test such lower priority prospects at no cost to Home.

In British Columbia we plan to follow up a 1971 gas discovery at Attachie and to drill exploration wells on other gas prospective acreage we hold in the north-eastern part of the Province. Moving east, Home is participating in a deep test now drilling in the Gaspe. We also have plans to take part in drilling on a block at Bell River in the Yukon and, in addition, follow up other prospects in the Northwest Territories.

Our Company holds an interest in permits on Ellef Ringnes Island involving 246,000 gross acres, with interests varying from 25% to 100%. A reconnaissance seismic survey has been conducted, and Home may undertake a drilling program in this area within the next year or two. It is interesting to note that two Panarctic wells are currently drilling in the immediate vicinity of our Ellef Ringnes acreage, and three gas discoveries have been made in the general area.

In Alaska leases near a major gas strike in the Kavik area are held by Home and at the present time efforts are being made to form a unit to permit drilling on these holdings. In the south-eastern continental United States, Home has a 12½% working interest in a deep play for gas involving the drilling of up to four wells in 1973. Each of these prospects has potential for a major discovery.

The most exciting exploration play in the world today is the North Sea. In the United Kingdom sector of the North Sea, Home has a 6⅜% interest in Block 30/2, which has been tested resulting in a gas condensate discovery. In the Scottish sector Home has a 30% interest in two blocks — 210/19 and 38/2. Both blocks are considered highly prospective by our exploration staff. The southern block, 38/2, is located in the general area of the Auk oil discovery, while the northern block, 210/19, is located in the general area of the Brent, Cormorant and Signal discoveries. Home has an interest in a deep water capability semi-submersible drilling vessel being constructed in Norway which is scheduled for completion early in 1974. We expect to use this rig to drill our two northern North Sea blocks beginning in 1974.

Seismic data has been acquired for a large area in the Norwegian sector of the North Sea and Home anticipates filing applications for permits in this attractive exploration area. At the same time seismic data is being acquired in areas of interest within the portion of the Continental Shelf under the jurisdiction of the Irish Republic.

Italian licenses in which Home has an interest are being actively explored by the Italian operator. Home is participating in a well to be drilled early in 1973 in the Aegean Sea and operated by Conoco. We also have a 5% interest in an exploration program being carried out by Burmah in Somali.

Apart from conventional oil and gas exploration, Home has a direct and important stake in development of the Athabasca Tar Sands, as Home holds an 87½% interest in a 38,000 acre tar sands lease. Extensive core hole drilling has indicated reserves in place of approximately four billion barrels, and efforts are now being made to form a joint venture project to develop the lease.

In addition to its oil and gas exploration program, Home participates in various mining exploration programs for industrial minerals in partnership with major mining companies. Activities are concentrated in British Columbia, the Yukon, and New Brunswick.

Now that you have the picture of Home's operations and current exploration program, I would like to tell you what you can expect of Home in the future and later touch on matters of general concern to the industry. As you could appreciate from my review of our exploration program, Home has extensive exploration land holdings with significant representation in foreign areas. Our holdings are equivalent to a net interest of 5.1 million acres, but of these holdings about 60% are located in Canada of which about half are in the three Western Provinces, with the preponderance in Alberta. From this you can appreciate that the distribution of our land holdings is weighted towards the area of prime historical interest to the Canadian Independents — Western Canada. While we have high hopes for our Alberta and British Columbia plays, we recognize that our land spread in the Canadian frontier areas is not commensurate with our position in the industry. Accordingly, if we wish to maintain or expand our relative position, we feel that we should add to our present modest holdings in the North and possibly acquire an interest in the East Coast offshore play. Along with these objectives, we intend to consider acquisition of additional holdings in foreign areas with a favourable

business environment should opportunities arise to participate in plays with big potential. Ross Phillips previously mentioned that our 1973 exploration budget provides for spending up to $18 million on exploration, or $6 million more than last year's exploration spending. Most of this budgeted increase has been provided for purchasing and earning interests in land and, given the opportunity, you can expect Home to substantially increase its land holdings in the next year or two.

I have previously mentioned that Home will be selective in committing its exploration budget. This is a policy arising from lengthening discovery odds in Western Canada, inflation and higher costs associated with deeper drilling and exploration and development in frontier and offshore plays. In order to keep unit finding and development costs to an economically acceptable level, we must selectively search for ever larger reserves. Home's policy will therefore be to concentrate on prospects with big reserve potential. Economics are, of course, directly related to prices. Here I would reiterate the opinion often expressed by oilmen that substantial increases of oil and gas prices are needed to provide incentive for deeper drilling and frontier exploration and, further, to generate additional earnings to finance exploration on an expanded scale. We are of course looking forward to the impending redetermination of prices under our gas sales contracts.

We believe that Home, along with other Canadian Independents, will play an effective role in the ever widening search for new petroleum reserves. Our Independents found a lot of oil and gas when Canadian oil and gas exploration was concentrated in the West, and we are confident that we will be able to maintain our record of success in the wider areas of interest in the '70's and '80's. Home is fortunate in that it has a large continuing cash flow to support an aggressive exploration program, and with this level of activity we are optimistic of success. When we appear before you again, I hope to be able to continue our story of growth.

Head Office
304 Sixth Avenue S.W., Calgary, Alberta

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HOME OIL COMPANY LIMITED

The Consolidated Statement of Earnings for the year ended December 31, 1972, which will appear in the Company's annual report is as follows:

	1972	1971
REVENUE		
Operating revenue	$35,732,000	$30,367,000
Investment income	4,201,000	3,885,000
	39,933,000	34,252,000
EXPENSE		
Operating	5,538,000	5,407,000
General and administrative	4,062,000	4,081,000
Depletion	9,784,000	7,088,000
Depreciation	2,678,000	2,216,000
Interest and expense on long term debt	4,601,000	4,476,000
Other interest	273,000	1,939,000
	26,936,000	25,207,000
Net earnings before income taxes	12,997,000	9,045,000
PROVISION FOR INCOME TAXES		
Current	3,673,000	1,778,000
Deferred	1,489,000	2,030,000
	5,162,000	3,808,000
NET EARNINGS before extraordinary items	7,835,000	5,237,000
EXTRAORDINARY ITEMS		
Gain on sale of investments	4,898,000	838,000
Provision for writedown of investment in Lockton Gas Plant	(2,700,000)	–
	2,198,000	838,000
NET EARNINGS	$10,033,000	$ 6,075,000
BASIC AND FULLY DILUTED EARNINGS PER SHARE		
Net earnings before extraordinary items	$ 1.06	$ .73
Extraordinary items	.30	.12
NET EARNINGS	$ 1.36	$ .85

Net cash flow from operations amounted to $20,885,000 or $2.84 per share in 1972 as compared with $15,964,000 or $2.24 per share in 1971.

The annual report, which will be mailed early in April, will contain audited financial statements together with details of the results of the operations of Home Oil Company Limited for the year 1972.

Oakah L Jones

Oakah L Jones,
Chairman of The Board and
Chief Executive Officer.

Calgary, Alberta
February 27, 1973

HOME OIL COMPANY LIMITED
304 - 6th Avenue S.W.
Calgary, Alberta, Canada T2P 0R4

GLOBE AND MAIL REPORT ON BUSINESS IR 1
ATTN MR JOHN PICTON
TORONTO ONTARIO

INTERIM REPORT TO SHAREHOLDERS

FOR THE THREE MONTHS ENDED
MARCH 31, 1973

Home Oil Company Limited

304 - SIXTH AVENUE S.W.,
CALGARY, ALBERTA
T2P 0R4

MAY 9, 1973

HOME OIL COMPANY LIMITED

AND SUBSIDIARY COMPANIES

TO THE SHAREHOLDERS:

Gross revenue, earnings and cash flow for the first quarter of 1973 reached all-time highs due to increased oil production and higher product prices. An improvement in profit margins on sales of liquid products by our U.S. marketing subsidiary also contributed to these results.

The effect of higher prices and production rates was partly offset by increased royalties. During the three month period, royalties paid or payable totalled $2,080,000, including a provision for additional royalty on crude oil payable pursuant to the Alberta Government's Oil Revenue Plan. Income taxes payable on 1973 first quarter earnings are estimated at $1,568,000 and a further $145,000 will be paid to various government agencies by way of mineral property or acreage taxes.

In the first quarter of 1973 oil and natural gas liquids production net of royalties averaged 29,400 barrels per day compared to 23,400 barrels per day in 1972, an increase of 26%. Gas sales averaged 117 MMcf per day, an increase of 7% over the same period in 1972.

The degree of production improvement which occurred in the first quarter of 1973 over the same period in 1972 probably will not be maintained for the full year due to the pattern of production increases that occurred since January 1972. The imposition of export ceilings on crude oil is not expected to have a significant short term effect on the Company's producing rates.

On May 1, 1973 an increase in crude prices of $0.25 per barrel was announced. This price increase and our estimated higher production rates should yield significantly better results for 1973 compared to 1972. The additional revenues accruing to the exploration companies will enable the industry to step up its exploration efforts.

During the first three months, the Company participated in 30 exploratory wells, 10 of which were drilled under farm-out agreements at no cost to Home. This program resulted in one oil well and one gas well. During the same period the Company also participated in 24 development wells, 17 of which were completed as oil wells and 4 as gas wells.

The Company has made arrangements to earn additional interests in the Canadian Arctic and is negotiating for participation in a play off the East Coast of Canada.

In the United States, Home is a participant in deep gas plays in the states bordering the Gulf of Mexico and in the drilling of a deep test in Oklahoma. Additional interests have been acquired in foreign areas with a 25% position in 3,212,350 offshore acres in the Sultanate of Oman where seismic exploration is being carried out.

Home is a member of a five company exploration team known as the Delta 5 Group which is currently conducting an extensive seismic program in the MacKenzie River Delta. On Ellef Ringnes Island in the Arctic, PanArctic Oils Ltd. is drilling an exploratory well, "PanArctic Isachsen J-37", two miles east of a Home 100% owned lease. Nine leases totalling 245,915 gross acres, or 140,783 net acres are held by the Company on Ellef Ringnes Island.

A dividend of $0.25 per share has been declared on the Class A and B shares payable July 1, 1973 to shareholders of record June 8.

Oakah Jones

OAKAH L JONES
Chairman of The Board and
Chief Executive Officer

May 9, 1973
Calgary, Alberta

CONSOLIDATED STATEMENT OF EARNINGS

For the Three Months ended March 31, 1973
($000's omitted)

	1973	1972 As Adjusted (Note A)
REVENUE		
Operating revenue	$ 10,506	$ 8,349
Investment income	1,161	996
	11,667	9,345
EXPENSE		
Operating	1,460	1,378
General and administrative	1,053	1,077
Depletion	2,800	2,028
Depreciation	534	620
Interest and expense on long-term debt	1,145	1,208
Other interest	15	171
	7,007	6,482
Net earnings before income taxes	4,660	2,863
PROVISION FOR INCOME TAXES		
Current	1,568	882
Deferred	233	417
	1,801	1,299
NET EARNINGS before extraordinary item	2,859	1,564
EXTRAORDINARY ITEM		
Gain on sale of investments	–	2,703
NET EARNINGS	$ 2,859	$ 4,267
BASIC EARNINGS PER SHARE		
Before extraordinary item	39¢	21¢
After extraordinary item	39¢	58¢
FULLY DILUTED EARNINGS PER SHARE		
Before extraordinary item	38¢	21¢
After extraordinary item	38¢	56¢
CASH FLOW	$ 5,995	$ 4,419
Per Share	81¢	60¢

NOTE A

The Company has adopted, with retroactive effect, a policy of amortizing foreign exploration expenditures on a systematic basis. Previously such expenditures were deferred pending the results of exploration in progress in each area. This change in accounting had the effect of reducing net earnings for the three months ended March 31, 1973 by $291,000 ($.04 per share). Net earnings after extraordinary item for the three months ended March 31, 1972, previously reported as $4,389,000, have been restated.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Three Months ended March 31, 1973
($000's omitted)

	1973	1972 As Adjusted (Note A)
FUNDS WERE OBTAINED FROM		
Net earnings before non-cash charges and credits	$ 5,995	$ 4,419
Issuance of capital stock	71	33
Sale of investments	–	7,829
Long-term borrowings-net	–	24,500
	$ 6,066	$ 36,781
FUNDS WERE USED FOR		
Property, plant and equipment	$ 4,293	$ 3,868
Repayment of long-term debt	2,701	5,060
Net increase (decrease) in other non-current assets	90	(16)
	7,084	8,912
Increase (decrease) in working capital	(1,018)	27,869
	$ 6,066	$ 36,781

MAJOR BALANCE SHEET ITEMS ($000's omitted)	MARCH 31, 1973	MARCH 31, 1972 As Adjusted (Note A)
Working capital	$ 3,260	$ 5,773
Investments	70,652	72,052
Property, plant and equipment-net	167,418	170,049
Long-term debt (less current maturities)	64,194	75,700
Gas sales prepayment	1,604	1,680
Deferred income taxes	28,553	27,993
Capital and surplus	149,005	144,672

PRODUCTION AND SALES	Three Months 1973	Three Months 1972
Crude oil and natural gas liquids (barrels/day)		
Gross	36,800	27,600
Net	29,400	23,400
Natural gas (Mcf/day)		
Gross	133,000	119,700
Net	117,000	109,000
Sulphur (long tons)		
Gross	9,700	10,300
Net	8,200	9,200

During 1973 Home Oil Company is participating in 11 mining exploration syndicates located in British Columbia, the Yukon, Northwest Territories, Arctic Islands and Ontario. Home's interest varies from 25% to 50% and exploration is concentrating on the search for base metal deposits. The Company recently entered into a joint venture for the preliminary development of a gold property in British Columbia.

During the period the Company acquired 109,200 shares of Scurry-Rainbow Oil Limited at a cost of $2,184,000. Subsequent to June 30, 1973, the Company acquired an additional 150,000 shares of Scurry-Rainbow at a cost of $3,000,000 and disposed of its 53,440 Convertible Preferred shares of Atlantic Richfield for $3,200,000.

August 15, 1973
Calgary, Alberta

OAKAH L JONES
Chairman of The Board and
Chief Executive Officer

HOME OIL COMPANY LIMITED
304 - 6th Avenue S.W.
Calgary, Alberta, Canada T2P 0R4

GLOBE AND MAIL REPORT ON BUSINESS IR 1
ATTN MR JOHN PICTON
TORONTO ONTARIO

INTERIM REPORT TO SHAREHOLDERS

FOR THE FIRST HALF OF 1973

Home Oil Company Limited

304 - SIXTH AVENUE S.W.,
CALGARY, ALBERTA
T2P 0R4

AUGUST 15, 1973

TO THE SHAREHOLDERS:

Production, gross revenue, cash flow and net earnings continued at record levels during the first six months of 1973, as a result of higher market demand for crude oil and increased product prices. Operating and administrative costs remained relatively unchanged and interest costs decreased.

Net production of crude oil and natural gas liquids, after deducting a contingency allowance for increased royalties, amounted to 29,000 barrels per day compared with 23,200 barrels per day in 1972, an increase of 25%. Sales of natural gas averaged 113,000 Mcf per day, an increase of 8%. Subsequent to June 30, 1973, the Company elected to pay increased mineral taxes in lieu of increased royalties on certain oil properties and as a result, the Company's net oil production for the first six months will be in excess of the amount stated above. The election will not have a significant financial effect on the Company's first half results.

Gas sale contracts on several major properties covering approximately 60% of Home's gas sales have been renegotiated increasing the sale price to approximately 26¢ per Mcf. The increased prices will come into effect in the principal fields on November 1, 1973. Early renegotiation provisions are also included in the new contracts. The Alberta Government's new policy on gas royalties is to be announced in September. The impact of this new policy on the Company's revenues is unknown at this time.

A number of purchasers of Western Canadian crude oil increased the price they will pay for a barrel of crude by 40¢ effective August 1, 1973. This increase in price, along with other increases that have occurred in the last year, bring the price received for crude oil more in line with the current costs associated with replacement and production.

During the period under review the Company's exploration program resulted in 1 oil well and 3 gas wells in Alberta and 1 gas well in Saskatchewan. At June 30, six wells in which Home has an interest were still drilling, comprising one in Alberta, one at Drake Point in the Arctic Islands and four in the United States. Development drilling during the same period resulted in 22 oil wells and 4 gas wells in Alberta and one gas well in Saskatchewan.

Following the drilling of an unsuccessful well, the Company has surrendered all its interests in the Aegean Sea.

Home's wholly owned U.S. subsidiary, Home Oil Company of Canada, participated for the first time in bidding for offshore tracts in the Gulf of Mexico in the U.S. Federal Lease Sale of June 19, 1973. It was a member of a bidding group that was successful in acquiring one block, in which Home has a 23.75% interest, off the coast of Louisiana. Drilling will commence as soon as a rig becomes available.

The Company has continued to actively acquire additional acreage by purchases at Government land sales and by farm-in negotiations with other companies. As at June 30, 1973, Home had an interest in 26,729,030 gross acres or a net acreage of 6,974,757. An acreage position will be earned by the Company through participation with other operators in a 17,500 foot test well at Drake Point in the Arctic Islands. By participating in the well Home will earn a 5% interest in 271,423 acres in all beds below the top of the Permian Sands.

CONSOLIDATED STATEMENT OF EARNINGS
For the Six Months ended June 30, 1973
($000's omitted)

	1973	1972 As Adjusted (Note A)
REVENUE		
Operating revenue	$ 22,206	$ 16,764
Investment income	2,244	1,966
	24,450	18,730
EXPENSE		
Operating	2,819	2,677
General and administrative	2,138	2,219
Depletion	6,358	5,276
Depreciation	1,081	1,246
Interest and expense on long-term debt	2,231	2,448
Other interest	19	200
	14,646	14,066
Net earnings before income taxes	9,804	4,664
PROVISION FOR INCOME TAXES		
Current	3,329	1,596
Deferred	754	634
	4,083	2,230
NET EARNINGS before extraordinary item	5,721	2,434
EXTRAORDINARY ITEM		
Gain on sale of investments	—	2,703
NET EARNINGS	$ 5,721	$ 5,137
BASIC EARNINGS PER SHARE		
Before extraordinary item	78¢	33¢
After extraordinary item	78¢	70¢
FULLY DILUTED EARNINGS PER SHARE		
Before extraordinary item	77¢	33¢
After extraordinary item	77¢	70¢
CASH FLOW	$ 13,120	$ 9,206
Per Share	1.78	1.25

NOTE A

The Company has adopted, with retroactive effect, a policy of amortizing foreign exploration expenditures on a systematic basis. Previously such expenditures were deferred pending the results of exploration in progress in each area. This change in accounting had the effect of reducing net earnings for the six months ended June 30, 1973 by $1,175,000 ($.15 per share). Net earnings after extraordinary item for the six months ended June 30, 1972, previously reported as $5,347,000, have been restated.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS
For the Six Months ended June 30, 1973
($000's omitted)

	1973	1972 As Adjusted (Note A)
FUNDS WERE OBTAINED FROM		
Net earnings before non-cash charges and credits	$ 13,120	$ 9,206
Issuance of capital stock	175	76
Sale of investments	—	7,829
Long-term borrowings-net	—	24,500
	$ 13,295	$ 41,611
FUNDS WERE USED FOR		
Property, plant and equipment	$ 9,712	$ 8,097
Other investments	2,184	—
Repayment of long-term debt	4,597	6,871
Net increase (decrease) in other non-current assets	370	(121)
Dividends	2,764	2,760
	19,627	17,607
Increase (decrease) in working capital	(6,332)	24,004
	$ 13,295	$ 41,611

MAJOR BALANCE SHEET ITEMS ($000's omitted)	JUNE 30 1973	JUNE 30 1972 As Adjusted (Note A)
Working capital (deficiency)	$ (2,054)	$ 1,908
Investments	73,172	72,247
Property, plant and equipment-net	171,016	172,654
Long-term debt (less current maturities)	62,300	73,889
Gas sales prepayment	1,544	1,680
Deferred income taxes	29,074	28,209
Capital and surplus	151,463	145,058

PRODUCTION AND SALES	Six Months 1973	Six Months 1972
Crude oil and natural gas liquids (barrels/day)		
Gross	36,600	27,600
Net	29,000	23,200
Natural gas (Mcf/day)		
Gross	128,400	115,300
Net	113,000	104,800
Sulphur (long tons)		
Gross	23,800	19,500
Net	21,200	17,400

In August, the Company called for redemption its 5½% Convertible Subordinated Debentures, due February 1, 1992. As a result, $24,815,000 of the $25,000,000 principal amount outstanding was converted into 652,543 Class "A" Shares of the Company. This has resulted in a substantial reduction in long term debt. Overall cash flow will be improved due to lower interest charges.

Subsequent to September 30, Home purchased from a number of Canadian institutional investors 216,650 shares of Scurry-Rainbow Oil Limited. Payment for the shares consisted of $1,507,000 and 75,000 Class "A" shares of the Company which the institutions have agreed to hold for investment. Home's interest in Scurry now consists of 475,850 shares, or approximately 18%.

A number of Senior Executive appointments were recently announced. Mr. R. F. Phillips, formerly Senior Vice-President Finance was appointed President and Chief Executive Officer, and Mr. M. P. Paulson, formerly senior Vice-President Operations was appointed Executive Vice-President and General Manager. Mr. R. B. Coleman, formerly Vice-President, Secretary and General Counsel was named Senior Vice-President, and will continue his duties as Secretary and General Counsel.

There have been several changes in the Board of Directors since our last report. In August, Mr. R. F. Phillips and Mr. M. P. Paulson were appointed to the Board, and more recently, Mr. A. G. S. Griffin and Mr. G. W. Carpenter were appointed Directors. On October 30, 1973, Mr. Griffin was elected Chairman of the Board.

It is with profound regret that the Company records the unexpected passing on October 8, 1973 of Mr. Oakah L Jones, Chairman and Chief Executive Officer. His active interest in and constructive contribution to the Company will be greatly missed.

R. F. Phillips
President and
Chief Executive Officer

HOME OIL COMPANY LIMITED
304 - 6th Avenue S.W.
Calgary, Alberta, Canada T2P 0R4

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GLOBE AND MAIL REPORT ON BUSINESS
ATTN MR JOHN PICTON
TORONTO ONTARIO

INTERIM REPORT TO SHAREHOLDERS

FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 1973

Home Oil Company Limited

304 - SIXTH AVENUE S.W.,
CALGARY, ALBERTA
T2P 0R4

NOVEMBER 5, 1973

TO THE SHAREHOLDERS:

Production, gross revenue, cash flow and net earnings continued at record levels for the third quarter in 1973 primarily as a result of higher market demand for crude oil and increased product prices.

Production of crude oil and natural gas liquids for the nine month period increased to 30,000 barrels per day, after deduction of royalties, compared with 23,800 barrels per day during the same period of 1972. Natural gas sales rose to 106,000 Mcf. per day compared to 102,200 Mcf. per day a year ago.

Revenue gains derived from crude oil price increases have been partially offset by the higher royalty rates and the new mineral reserve tax in Alberta. During the nine month period, royalties and mineral taxes totalled $6,801,000. In addition, current income taxes payable are estimated at $4,671,000 with a further $262,000 being paid for pipeline and property taxes. The Company believes that Canadian crude oil prices must be allowed to align themselves to world crude oil prices. This is particularly true in light of the large capital outlays required for exploration in frontier areas, the increasing cost of replacing reserves and the strong demand for Canadian crude.

Home had an interest in 53 exploratory wells during the period ending September 30, 1973. This program resulted in one oil well, 7 gas wells and 34 abandonments with 11 wells still drilling. One of the natural gas discoveries, located in Custer County, Oklahoma, was drilled on acreage farmed-in and follow-up drilling will commence in the near future to more fully evaluate the gas potential in the area.

In continuing its efforts to broaden its land holdings, the Company has entered into a joint venture with Panarctic involving a part of Home's acreage on Ellef Ringnes Island with a part of Panarctic's holdings on Eglington Island, Amund Ringnes Island and Ellesmere Island. A well is planned on this acreage during the winter drilling season. The Company previously announced that it had purchased Axel Heiberg Oil Company's interest in 9 favourably located oil and gas exploration permits on Axel Heiberg Island.

The Company will earn a 6⅔% interest in approximately 1,960,000 acres of offshore permits by participating in the drilling of a well on the Grand Banks offshore Newfoundland, with the option to earn a further 3⅓% interest by participating in the drilling of a second well. The inital well is expected to start in December, 1973.

The marine seismic survey conducted offshore Oman, in the Sultanate of Oman, resulted in Home and its partners electing to drill an exploratory well to earn an interest in the concession. Drilling is expected to commence early in 1974.

CONSOLIDATED STATEMENT OF EARNINGS

For the Nine Months Ended September 30, 1973 ($000's omitted)

	1973	1972 As Adjusted (Note A)
REVENUE		
Operating revenue	$ 36,057	$ 25,737
Investment income	3,449	3,067
	39,506	28,804
EXPENSE		
Operating	5,722	3,944
General and administrative	3,127	3,171
Depletion	9,177	7,479
Depreciation	1,620	1,928
Interest and expense on long-term debt	3,083	3,665
Other interest	36	245
	22,765	20,432
Net earnings before income taxes	16,741	8,372
PROVISION FOR INCOME TAXES	6,760	3,411
NET EARNINGS before extraordinary item	9,981	4,961
EXTRAORDINARY ITEM		
Gain (loss) on sale of investments	(295)	2,710
NET EARNINGS	$ 9,686	$ 7,671
BASIC EARNINGS PER SHARE		
Before extraordinary item	$ 1.34	$ .67
After extraordinary item	1.30	1.04
FULLY DILUTED EARNINGS PER SHARE		
Before extraordinary item	$ 1.33	$ .67
After extraordinary item	1.29	1.03
CASH FLOW	$ 21,731	$ 14,373
Per Share	2.91	1.95

NOTE A

The Company has adopted, with retroactive effect, a policy of amortizing foreign exploration expenditures on a systematic basis. Previously such expenditures were deferred pending the results of exploration in progress in each area. This change in accounting had the effect of reducing net earnings for the nine months ended September 30, 1973 by $1,514,000 ($.20 per share). Net earnings after extraordinary item for the nine months ended September 30, 1972, previously reported as $8,187,000, have been restated.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Nine Months Ended September 30, 1973 ($000's omitted)

	1973	1972 As Adjusted (Note A)
FUNDS WERE OBTAINED FROM		
Net earnings before non-cash charges and credits	$ 21,731	$ 14,373
Issuance of capital stock	431	114
Sale of investments	3,191	7,946
Long-term borrowings – net	–	24,500
	$ 25,353	$ 46,933
FUNDS WERE USED FOR		
Property, plant and equipment	$ 16,221	$ 9,576
Investment in Scurry-Rainbow Oil Limited	5,184	–
Repayment of long-term debt	7,239	8,620
Net increase (decrease) in other non-current assets	846	(62)
Dividends	2,847	2,761
	32,337	20,895
Increase (decrease) in working capital	(6,984)	26,038
	$ 25,353	$ 46,933

MAJOR BALANCE SHEET ITEMS ($000's omitted)	SEPTEMBER 30, 1973	1972 As Adjusted (Note A)
Working capital (deficiency)	$ (2,705)	$ 3,942
Investments	73,127	72,463
Property, plant and equipment – net	174,249	170,491
Long-term debt (less current maturities)	34,861	72,139
Gas sales prepayment	1,506	1,680
Deferred income taxes	30,521	27,507
Capital and surplus	179,856	147,628

PRODUCTION AND SALES	Nine Months 1973	1972
Crude oil and natural gas liquids (barrels/day)		
Gross	35,500	28,700
Net	30,000	23,800
Natural gas (Mcf/day)		
Gross	121,100	111,400
Net	106,000	102,200
Sulphur (long tons)		
Gross	34,300	34,100
Net	30,600	30,300

OAKAH L JONES
1901 - 1973

Oakah Jones joined Home Oil Company Limited as Chairman of the Board in April, 1971 following the purchase by The Consumers' Gas Company of the controlling interest in Cygnus Corporation Limited and Home Oil Company Limited.

His outstanding ability and energy, high principles and integrity and his sincere concern for people earned the respect of all with whom he came in contact.

Home Oil Company Limited will long remember the contributions he made during his association with this Company.

DIRECTORS

*ANTHONY G. S. GRIFFIN *(Toronto, Ontario)*

Chairman of the Boards of the Company, Triarch Corporation Limited, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company.

President: Toronto & London Investment Company Limited.

Director: The Consumers' Gas Company, Canadian Corporate Management Company Limited, Canadian Industries Limited, Raymond International Inc., Houston, Texas, United Dominions Corporation (Canada) Limited, Victoria & Grey Trust Company, Waltec Enterprises Limited, National Film Board.

GEORGE W. CARPENTER *(Toronto, Ontario)*

Executive Vice-President and Director of The Consumers' Gas Company.

MARSH A. COOPER *(Toronto, Ontario)*

President and Managing Director of Falconbridge Nickel Mines Limited.

Chairman of the Board of McIntyre Porcupine Mines Limited.

Director: Abitibi Paper Company Ltd., Crown Life Insurance Company, Canadian Imperial Bank of Commerce, Mogul of Ireland Limited, Texas Eastern Transmission Corporation, Burns Foods Limited, Superior Oil Company.

Governor of Laurentian University, Sudbury.

PERCY M. FOX *(Bermuda)*

Chairman of the Board of the Great Lakes Paper Company, Limited.

Director: The Royal Trust Company, St. Lawrence Corporation Limited.

*J. DOUGLAS GIBSON, O.B.E. *(Toronto, Ontario)*

Chairman of the Boards of The Consumers' Gas Company, Canadian Reinsurance and Canadian Reassurance Companies, Eddy Match Company Limited.

Director: The Imperial Life Assurance Company of Canada, National Trust Company Limited, Harding Carpets Limited, Steel Company of Canada Limited, Bell Canada, Moore Corporation Limited, Northern Electric Company, Limited.

Chairman of the Board of Trustees, Queen's University.

*THE HON. HARRY W. HAYS, P.C. *(Calgary, Alberta)*

Rancher.

Member of the Senate of Canada.

Director: Canada Permanent Companies, Lakeside Cattle Fund, The Canada Studies Foundation, Burritt Travel Agencies.

Life Director of the Calgary Exhibition and Stampede.

JAMES INNES *(London, England)*

Investment Consultant, Hedderwick, Borthwick and Co.

Chairman of the University Life Assurance Society.

Director: Home Oil of Canada Limited.

WILLIAM F. JAMES, Ph.D. *(Toronto, Ontario)*

Partner of James & Buffam.

Vice-President and Director of Alminex Limited.

Director: Eldorado Nuclear Limited, Falconbridge Nickel Mines Limited, Dome Mines Limited, The Granby Mining Company, Limited.

*HENRY E. LANGFORD, Q.C. *(Toronto, Ontario)*

Director: The Consumers' Gas Company, The Dominion of Canada General Insurance Company, Victoria & Grey Trust Company, The Empire Life Insurance Company, E. L. Financial Corporation, Casualty Insurance Company, Geo. J. McLeod Co. Ltd., Ontario Hospital Association, Family Planning Associatio of Canada.

Chairman, CARE of Canada.

*JOSEPH C. McCARTHY *(Toronto, Ontario)*

President and Chief Executive Officer and Director of The Consumers' Gas Company.

Chairman of the Board and Managing Director of Cygnus Corporation Limited.

Director: The Toronto-Dominion Bank.

THE RT. HON. LORD McFADZEAN *(London, Eng.)*

Deputy Chairman, Midland Bank Limited, London, England.

Chairman of the Board of Home Oil of Canada Limited.

Chairman of the Boards of Canada Life Unit Trust Managers Limited, Standard Broadcasting Corporation (U.K.) Limited.

Deputy Chairman: The Canada Life Assurance Company of Great Britain Limited, National Nuclear Corporation Ltd.

Director: The Canada Life Assurance Company, Canadian Imperial Bank of Commerce.

MAURICE P. PAULSON *(Calgary, Alberta)*

Executive Vice-President and General Manager of the Company.

*ROSS F. PHILLIPS *(Calgary, Alberta)*

President and Chief Executive Officer of the Company.

Director: The Consumers' Gas Company.

Member: Calgary Advisory Board of Crown Trust Company.

HARRY I. PRICE *(Toronto, Ontario)*

Chairman of the Executive Committee and Director of Burns Foods Limited.

Life Director of the Canadian National Exhibition.

RENAULT ST-LAURENT, Q.C. *(Quebec City, Que.)*

Partner of St-Laurent, Monast, Walters, Gagné & Vallières.

Director: Anglo Canadian Pulp and Paper Mills Limited, Banque Canadienne Nationale, Sicard Inc., The Imperial Life Assurance Company of Canada, Scott Paper Limited, Gaz du Quebec Inc., Rothmans of Pall Mall Canada Limited, I.A.C. Limited, Canabec Investments Ltd., Carling O'Keefe Limited, Merit Insurance Company, Reed Paper Group Canada Holdings Limited, Reed Paper Group Canada Limited.

Member: National Trust Company Limited Advisory Board.

WILLIAM H. ZIMMERMAN, Q.C. *(Toronto, Ontario)*

Counsel, Aird, Zimmerman & Berlis, Barristers and Solicitors.

President, Commonwealth International and Regent Mutual Funds, Beaver Dredging Co. Ltd.

Director: The Consumers' Gas Company, The Becker Milk Company Limited, Inter-Provincial Diversified Holdings Ltd., Scythes & Co. Ltd., Eaton Financial Services Limited.

*Member Executive Committee.

SUMMARY OF 1973 OPERATIONS

	1973	1972	% Change
FINANCIAL			
Gross Operating Revenue	$ 56,014,000	$39,933,000	+ 40
Net Cash Flow From Operations	$ 31,845,000	$20,885,000	+ 52
Per Share	$ 4.18	$ 2.84	
Net Earnings Before Extraordinary Items	$ 14,512,000	$ 7,090,000	+105
Per Share	$ 1.90	$ 0.96	
Net Earnings After Extraordinary Items	$ 14,217,000	$ 9,288,000	+ 53
Per Share	$ 1.86	$ 1.26	
Dividends Declared	$ 3,875,000	$ 3,690,000	+ 5
Per Class A Share	$ 0.50	$ 0.50	
Per Class B Share	$ 0.50	$ 0.50	
Working Capital At December 31	$ (3,052,000)	$ 4,279,000	
Exploration Expenditures	$ 17,720,000	$10,272,000	+ 73
Development Expenditures	$ 3,478,000	$ 5,254,000	− 34
OPERATING*			
Crude Oil Production — Barrels Per Day	31,849	25,391	+ 25
Natural Gas Liquids Production — Barrels Per Day	4,181	3,994	+ 5
Natural Gas Sales — Million Cubic Feet Per Day	121.5	115.2	+ 5
Sulphur Sales — Long Tons	48,884	48,531	+ 1
Pipeline Throughputs			
Federated Pipe Lines Ltd. — Barrels Per Day	330,420	258,907	+ 28
Cremona Pipeline Division — Barrels Per Day	45,817	43,411	+ 6
Exploration Acreage At December 31			
Gross Acres	27,651,163	21,617,960	+ 28
Net Acres	7,340,102	5,796,811	+ 27

* Daily Production Statistics Shown As Company's Share Before Deduction Of Royalties.

DIRECTORS' REPORT TO THE SHAREHOLDERS

In presenting this, the forty-fifth, annual report of Home Oil Company Limited, the Board of Directors records with deep regret the sudden loss of our former Chairman of the Board and Chief Executive Officer, Mr. Oakah L Jones. During his involvement with the Company, from April, 1971 until his death in October, 1973, Mr. Jones encouraged the active exploration which had characterized the Company in the past and his leadership contributed greatly to the continuing growth of the Company.

The Company again recorded significant increases in revenue, net income and cash flow from operations. Prices averaged considerably higher than the previous year and production volumes were at record levels. Expenditures for exploration and development also increased substantially over last year aggregating $21,198,000 as compared to $15,526,000 in 1972. In common with many companies in the Canadian industry, the Company failed to replace through exploration and development efforts the reserves depleted during the year and this is a matter of continuing concern to your Directors. In addition the Company is faced with the problem of steadily increasing exploration costs associated with the search for hydrocarbon reserves in Canada, particularly in the frontier areas. These increasing costs, coupled with the lower success rate on finding new reserves experienced by the industry, have resulted in a much higher cost per barrel on replacement reserves.

Home improved its land position in 1973 by acquiring acreage in the Arctic Islands, offshore Eastern Canada, the Gulf of Mexico and other selected areas. Substantial geophysical expenditures were incurred in 1973 in preparation for drilling in subsequent years. Exploratory drilling planned for 1974 includes a number of wells in both Canada and the United States including one well in the Gulf of Mexico offshore Louisiana. In addition, the Company plans to drill two wells in the North Sea and a well on a concession offshore Oman.

During 1973 considerable progress was made in our Athabasca tar sands program. Exploration activities were continued on the 87.5% owned lease and preliminary studies were undertaken to determine the mining and processing facilities required to produce 100,000 barrels daily of synthetic crude. In 1974, the Company plans to form a consortium for the development of the lease and will file an application with the Province of Alberta for the necessary government permits.

Home is joining with two other companies in a joint venture for the exploration for coal in Western Canada. Increasing energy costs have markedly enhanced the importance of coal as a necessary energy source. In addition, the Company is participating with others in base metal exploration on Cornwallis Island and in a gold mining prospect in the interior of British Columbia.

The "Odin Drill", a semi-submersible drilling vessel in which Home has a 20% interest and which is capable of drilling in 600 feet of water, is nearing completion in Norway. After sea trials early in the second

quarter it will move to drill a well on North Sea License 210/19, in which Home has a 30% interest, with a second Home well to be drilled later in 1974 at a location yet to be selected. The construction cost of the "Odin Drill" is estimated at $28 million.

In 1973 Home purchased 475,850 shares of Scurry-Rainbow Oil Limited, representing approximately 18% of its outstanding shares. Scurry-Rainbow has crude oil and natural gas production in Canada, exploration acreage in Canada, the United States and onshore and offshore United Kingdom and coal mining prospects in Alberta and British Columbia.

In 1973, Home's United States subsidiaries were reorganized and all of the Company's U.S. marketing and exploration activities are now carried out by one operating subsidiary, Home Petroleum Corporation. This will provide a more efficient operation in the administration of our U.S. activities. In 1974, Home Petroleum Corporation entered into a purchase agreement for the acquisition of underground storage in Kansas at a cost of approximately $9 million. This facility, which will enhance the U.S. marketing activity in 1974, has a capacity of approximately 8 million barrels for the storage of propane and other liquids.

In the latter part of 1973, the Federal Government requested the industry to accept a voluntary price freeze and imposed a tax on crude oil exported from Canada. These measures were designed to protect Canadian consumers in the short term from rapidly escalating world prices and to ensure that exported Canadian crude was sold at fair value. The present price freeze will terminate on March 31, 1974 as a result of decisions reached at the January Energy Conference between the Federal and Provincial Governments. While Government policies with respect to long-term energy prices and supply remain somewhat unclear at this time, the overriding objectives appear to be a self-sufficient energy position and a uniform domestic price for crude oil, excluding transmission costs, in all areas of Canada.

Your Directors believe that continuing self-sufficiency can only be maintained if the Federal Government and the Provinces recognize that the industry must generate sufficient funds and earn sufficient profits from its present producing operations to permit it to finance both internally and externally through the financial markets the large-scale expenditures that are critical to the development of the Tar Sands and to the intensive and expensive exploration programs in the remote areas of Canada. The outlays in such programs are very large and the lead times to actual available production are very long. Oil and gas pricing policies, if they are to achieve self-sufficiency in the '80's and '90's, must take these factors into account. Realistic pricing means that, leaving aside temporary expedients to cushion the shock of sudden escalation which we have seen at the end of 1973, the Canadian price will reflect the world price. This in turn will ensure first, active and vigorous exploration and development activity within Canada and second, a sound and efficient use of petroleum products with a minimization of waste.

Your Directors also believe that the proposed National Petroleum Corporation can best serve the national interest if it is structured to complement, rather than detract from, the efforts of existing Canadian independent companies. Thus, it should not in our opinion receive a more preferential treatment on land holdings and other matters than any other Canadian independent company; otherwise it will thwart the growth potential of existing Canadian companies. The optimum development of Canada's oil and gas resources requires not only huge amounts of risk capital but also diversity of judgment and expertise that results from many exploration ideas in a competitive environment and these ingredients would be damaged if in effect a "protected" corporation were to compete on an unequal basis.

The Alberta Petroleum Marketing Commission, which was established by the Alberta Government in December, 1973, will commence operations on March 1, 1974. This commission is to be the sole purchaser of crude oil produced on Crown lands in the Province, which represents approximately 85% of the total oil production in Alberta, and will market this oil at the best price available. It is hoped that, after the price freeze is lifted on March 31, 1974, the amount received by the producer will ultimately equate fairly with the settled world price.

Under the Alberta Oil Revenue Plan which became effective January 1, 1973, the Company elected to pay increased mineral taxes in lieu of increased royalties on certain oil properties. In the latter part of 1973, the Government of Alberta announced that this Oil Revenue Plan was being rescinded, to be replaced by a revised royalty scheme. At the end of January, 1974, it was revealed that the new increased crude oil royalty system would probably be released in late March, 1974. We are, therefore, unable to measure, at the time of writing this report, what impact this revised royalty scheme will have on the Company's revenues. We are hopeful, however, that the Government's announced intention to hold discussions with the industry on the implementation of this policy will materialize and that the industry's viewpoint will receive appropriate consideration.

On January 31, 1974 the Government of Alberta announced increased royalty rates for natural gas and natural gas by-products effective January 1, 1974. The natural gas royalty rate is to increase from 16.7% to 22% for gas which has a selling price of 26¢ per Mcf or less. Incremental royalty rates will be applied on gas prices above 26¢ per Mcf. A maximum royalty of 65% will be applied against the incremental price of gas which exceeds 72¢ per Mcf. A lesser rate will apply to new reserves discovered in the Province. Changes were also made in the method of calculating royalties on natural gas liquids. At the same time, the Government of Alberta amended its drilling incentive program to encourage exploration drilling activity in the Province.

Recent legislation in the Provinces of Saskatchewan and British Columbia will have a negligible effect on the Company's production

revenues but future exploration activities in these areas will be viewed in light of these governmental actions.

During 1973, a number of senior executive appointments were made. Mr. R. F. Phillips was appointed President and, following the death of Mr. Jones, was also named Chief Executive Officer. Mr. M. P. Paulson was appointed Executive Vice-President and General Manager and Mr. R. B. Coleman was named Senior Vice-President and will continue his duties as Secretary and General Counsel. In addition, the following senior appointments were made: Mr. R. E. Humphreys, Vice-President, Exploration; Mr. G. Fong, General Manager, Exploration; Mr. W. D. Lundberg, Vice-President, Producing Operations; Mr. B. B. Rombough, Vice-President, Finance; Mr. D. E. Deakin, Treasurer; Mr. B. F. MacNeill, Comptroller.

There have been several changes in the Board of Directors since our last annual report. In August, Messrs. R. F. Phillips and M. P. Paulson were appointed to the Board and more recently Mr. A. G. S. Griffin and Mr. G. W. Carpenter were appointed Directors. On October 30, 1973, Mr. Griffin was elected Chairman of the Board. These appointments were made to fill vacancies created by the death of Mr. Oakah L Jones and the resignation of Messrs. F. W. Hurst, F. G. Mitchell and R. S. Paddon. The Board gratefully acknowledges the contribution made by these former Directors.

One of the major factors contributing to the Company's ability to realize its growth potential is the dedicated efforts of the employees. The Board highly commends the capable manner in which the employees carried out their varied responsibilities during the past year.

Submitted on behalf of the Board of Directors.

AG Griffin

Chairman of the Board

R F Phillips

President and Chief Executive Officer

Calgary, Alberta
February 26, 1974

EXPLORATION

In 1973 Home continued the policy of exploring for prospects having potential for large reserves. A strong program of data gathering and drilling was carried out in the frontier areas of Canada and in selected foreign areas and an expanded penetration into the United States was accomplished. At the same time a continuing program of exploration for medium to large reserves was followed in Western Canada. Exploration on less promising holdings was accelerated by farmouts to other operators. These activities were complemented by a continuing effort to further increase land holdings. Exploration expenditures totalled $17,720,000, up 72.5% from $10,272,000 in 1972.

At year end, the Company's land holdings totalled 27,651,163 gross acres or 7,340,102 net acres as compared to 21,617,960 gross acres or 5,796,811 net acres at the end of 1972.

Home was involved in the drilling of a total of 63 exploratory wells in 1973, resulting in eleven gas wells in Alberta, one gas well in Saskatchewan, one gas well in Oklahoma and one potential gas well in Wyoming. Forty-nine were dry and abandoned and twenty additional exploratory wells were either drilling or temporarily suspended at year end.

Home increased its holdings in the Arctic Islands by acquiring an interest in land over a large geological structure on Axel Heiberg Island. It further expanded its interests by entering into a joint venture with Panarctic involving a part of Home's acreage on Ellef Ringnes Island with a part of Panarctic's acreage on Eglinton Island, Amund Ringnes Island and Ellesmere Island. Additional seismic was acquired and Home is participating with Panarctic in the drilling of a well on Ellef Ringnes Island and in a deep test at Drake Point on Melville Island.

Home is a member of a five company consortium which has completed a program of seismic exploration in the Mackenzie Delta. This is part of a long range objective of data gathering to be followed by land acquisition.

Offshore Eastern Canada, Home was participating at year-end in the drilling of a well on the Grand Banks which has subsequently been abandoned. This well earned Home its first land holdings in this prospective frontier area.

In the United States, Home was active in a number of States, the most notable being Alabama, Louisiana, Mississippi, Montana, North Dakota, Oklahoma and South Dakota. The American plays involved a variety of geological prospects, each with large reserves potential. The Company participated for the first time in competitive bidding for offshore acreage in the Gulf of Mexico and is a member of a group which acquired one Block offshore Louisiana. Drilling on the Block commenced on February 18, 1974.

The Company continued to acquire seismic and to carry out detailed studies in the area of Blocks 210/19 and 38/2, in which we have a 30% interest, in the U.K. sector of the North Sea. Home also has a 6.38% interest in Block 30/2 on which a gas condensate discovery was drilled in 1971 and further activity on this block is dependent upon developments in the immediate areas.

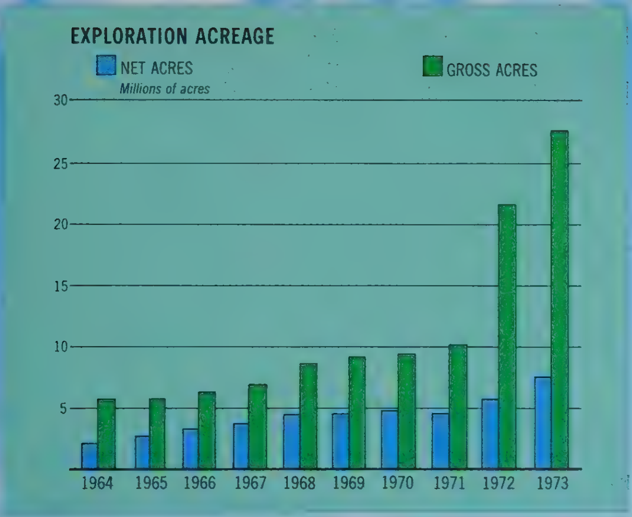
In anticipation of a fifth round of awards by the U.K. Department of Trade and Industry, the Company has acquired a large amount of seismic data covering almost all of the unlicensed Blocks of the North Sea, West Shetlands and English Channel areas. This will form the basis for evaluating the Blocks that the Government may eventually offer.

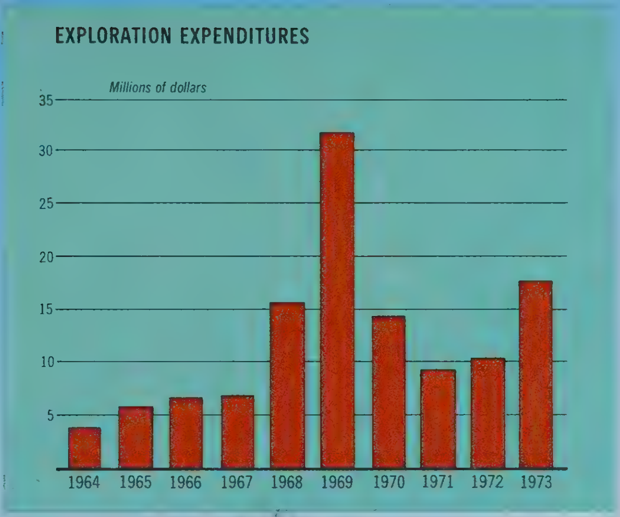
The Company, as operator for an international consortium, made application to the Norwegian Department of Industry for several of the Blocks located in the Norwegian sector of the North Sea. However, the Company does not know when the awards from these applications will be made.

Applications for concessions have been made with the governments of India and Portugal. The interpretation of the geophysical and geological data has been completed on the concession offshore Oman and a well is planned for late 1974. In the Republic of Somali Home participated in the acquisition of a new Exploration Permit Area.

The Company continued its mining exploration activities in 1973, being involved in 18 projects. The majority of these were located in British Columbia, others being located in the Yukon-Northwest Territories, Arctic Islands, Saskatchewan and Ontario. The primary search has been for base metal deposits and with the exception of four areas, further exploration is planned for 1974.

Evaluation of a gold prospect is being conducted at Wells, British Columbia, on the Mosquito Creek project. Following a diamond drilling program, shaft sinking is now underway.

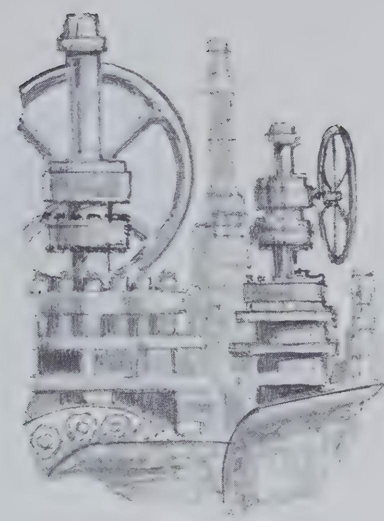

EXPLORATION ACREAGE
NET ACRES
GROSS ACRES
Millions of acres
30
25
20
15
10
5
1964
1965
1966
1967
1968
1969
1970
1971
1972
1973


EXPLORATION EXPENDITURES
Millions of dollars
35
30
25
20
15
10
5
1964
1965
1966
1967
1968
1969
1970
1971
1972
1973

EXPLORATION ACREAGE, JANUARY 1, 1974

	Petroleum & Natural Gas Leases		Reservations, Licences and Permits		Totals	
	Gross	Net	Gross	Net	Gross	Net
Canada						
Alberta	2,555,254	1,123,683	745,882	278,692	3,301,136	1,402,375
Arctic Islands	—	—	1,874,099	662,042	1,874,099	662,042
British Columbia	62,715	15,026	1,064,652	432,025	1,127,367	447,051
Hudson Bay	—	—	898,431	898,431	898,431	898,431
Newfoundland	—	—	1,961,922	130,795	1,961,922	130,795
Northwest Territories	—	—	400,728	86,778	400,728	86,778
Ontario	150	19	—	—	150	19
Quebec	—	—	325,800	48,870	325,800	48,870
Saskatchewan	207,455	75,777	808,160	764,320	1,015,615	840,097
Yukon Territory	—	—	1,032,561	281,337	1,032,561	281,337
	2,825,574	1,214,505	9,112,235	3,583,290	11,937,809	4,797,795
Europe						
Italy	—	—	1,391,443	316,463	1,391,443	316,463
Malta	—	—	426,218	90,571	426,218	90,571
North Sea (U.K.)	—	—	162,207	35,466	162,207	35,466
Yorkshire (U.K.)	—	—	459,561	229,781	459,561	229,781
	—	—	2,439,429	672,281	2,439,429	672,281
United States						
Alaska	537,586	367,898	—	—	537,586	367,898
California	4,079	442	—	—	4,079	442
Utah	81,642	37,005	—	—	81,642	37,005
Wyoming	156,742	75,712	—	—	156,742	75,712
North-central States (1)	231,846	124,215	—	—	231,846	124,215
Southeastern States (2)	90,510	13,874	—	—	90,510	13,874
	1,102,405	619,146	—	—	1,102,405	619,146
Others						
Oman	—	—	3,211,520	802,880	3,211,520	802,880
Somali Republic	—	—	8,960,000	448,000	8,960,000	448,000
Total	3,927,979	1,833,651	23,723,184	5,506,451	27,651,163	7,340,102

(1) Montana, North Dakota, South Dakota.
(2) Alabama, Louisiana, Mississippi, Oklahoma, Texas.

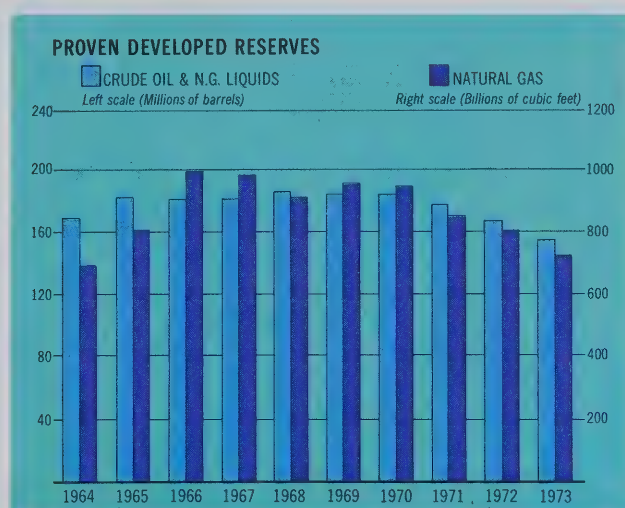


RESERVES

The Company's proven developed crude oil, natural gas liquids, natural gas and sulphur reserves at January 1, 1974, are summarized in the accompanying table. The Company has changed its method of reporting reserves and production statistics, commencing January 1, 1973, from net after deduction of all royalties to company's share of gross before deduction of royalties. The January 1, 1973 reserves on the accompanying table have been restated to reflect this change.

PROVEN DEVELOPED RESERVES
(Before Deduction of Royalties)

	Jan. 1, 1974	Jan. 1, 1973
Crude Oil — barrels	140,140,900	151,320,600
Natural Gas Liquids — barrels	15,560,500	16,646,200
Natural Gas — thousand cubic feet	726,228,000	807,701,000
Sulphur — long tons	1,662,900	1,712,700



PRODUCTION

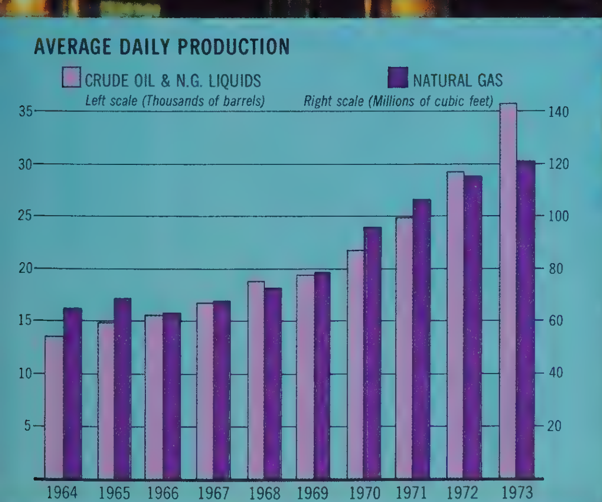
Record volumes of crude oil, natural gas liquids (condensate, propane and butane) and natural gas were produced and sold in 1973.

Crude oil and natural gas liquids production before the deduction of royalties averaged 36,030 barrels per day, an increase of 22.6 per cent over the 29,385 barrels per day produced in 1972. Natural gas production averaged 121.5 million cubic feet per day, or 5.5 per cent higher than the 1972 average of 115.2 million cubic feet per day. Sulphur production in 1973 was 49,267 long tons as compared with 57,336 long tons in 1972. The increase in crude oil production is the result of expanded producing facilities completed late in 1972 including major water injection facilities in the Swan Hills Unit, Virginia Hills Unit and Mitsue Unit properties. The first full year of gas production from the Harmattan-Elkton Unit contributed substantially to the increased gas sales.

At the end of 1973, gas sale contracts have been renegotiated on approximately 88% of Home's contracted gas, which accounts for approximately 78% of the Company's gas sales. The new contracts increase the base sales price range to 20¢ - 27¢ per Mcf from the previous range of 14¢ - 18.8¢ per Mcf, effective at various times during the year. Early renegotiation provisions are also included in the new contracts.

In Alberta, where the Company obtains virtually all of its crude oil production, the majority of oil pools are presently producing at or near the maximum physical capacity of production facilities installed. In the Swan Hills Unit, in which the Company has a 17.2% interest and which accounted for 53% of the Company's 1973 crude oil production, development projects are planned for 1974 which will increase the maximum daily producing capability above the present 109,000 barrels daily. In total, the Company anticipates development expenditures in 1974 in excess of $4.5 million to assure a continued high level of production.

Sixty-six development wells in which Home had an interest were drilled in 1973. These resulted in 29 oil wells and 22 gas wells in Alberta and one gas well in Saskatchewan and 14 were dry and abandoned. Three development wells were drilling at year-end.



SOURCE OF PRODUCTION

(Before Deduction of Royalties)

The 1972 statistics have been restated to reflect the change in the method of reporting production as noted in the Reserves section.

Producing Field

	1973	1972
CRUDE OIL — *Barrels*		
Swan Hills	6,544,500	4,968,446
Mitsue-Saulteaux	1,331,434	1,088,804
Virginia Hills	1,133,167	870,333
Pembina	856,724	878,817
Harmattan-Elkton	523,102	405,598
Turner Valley	377,641	330,137
Leduc-Woodbend	269,532	260,174
Others	588,904	490,754
Total Crude Oil	11,625,004	9,293,063
Daily Average	31,849	25,391

	1973	1972
NATURAL GAS LIQUIDS — *Barrels*		
Carstairs-Elkton	735,884	661,223
Harmattan	309,375	323,794
Nevis	143,952	111,730
Calgary	98,400	94,663
Others	238,614	270,535
Total Natural Gas Liquids	1,526,225	1,461,945
Daily Average	4,181	3,994
Total Crude Oil and Natural Gas Liquids	13,151,229	10,755,008
Daily Average	36,030	29,385

	1973	1972
NATURAL GAS — *Thousand Cubic Feet*		
Carstairs-Elkton	14,229,807	13,751,897
Nevis	6,340,190	6,329,510
Swan Hills	3,933,593	2,605,926
Marten Hills	2,763,237	2,788,964
Harmattan-Elkton	2,313,720	630,277
Calgary	2,350,685	2,296,241
Jumping Pound	1,658,218	1,957,582
Turner Valley	1,502,311	1,558,122
Whitecourt	1,326,481	1,418,187
Crossfield	980,326	1,035,018
Sarcee	956,035	917,242
Nordegg-Brazeau	728,517	724,187
Retlaw	539,090	570,671
Lockton	470,960	1,880,525
Pendor	335,697	291,038
South Elkton	302,181	295,211
Others	3,614,972	3,098,851
Total Natural Gas	44,346,020	42,149,449
Daily Average	121,496	115,162

PIPELINES

Federated Pipe Lines Ltd. During 1973, Federated Pipe Lines Ltd., 50% owned and operated by the Company, had a throughput averaging 330,420 barrels per day, up 27.9% from 258,907 barrels per day in 1972. The 1973 throughput represents approximately 24.1% of Alberta's total light and medium crude production. Throughputs peaked at 368,600 barrels per day in 1973 as compared to 342,800 barrels per day the previous year.

The maximum main line capacity of the Federated Pipe Lines Ltd. system was increased from 350,000 to 410,000 barrels per day during 1973 and will be 450,000 barrels per day by March, 1974. A total of 28,100 horsepower is connected on the main line system to achieve this capacity.

Cremona Pipe Line Division Cremona Pipe Line Division's throughput of crude, condensate and butane averaged 45,817 barrels per day in 1973, an increase of 5.5% from 43,411 barrels per day in 1972.

MARKETING

During 1973 the LPG marketing companies contributed substantially to corporate profits. The price of propane and butane improved in the third and fourth quarters of 1973 as a result of the increased demand for these products. Total product volumes handled were 277 million gallons, a decrease of 2 million gallons from 1972.

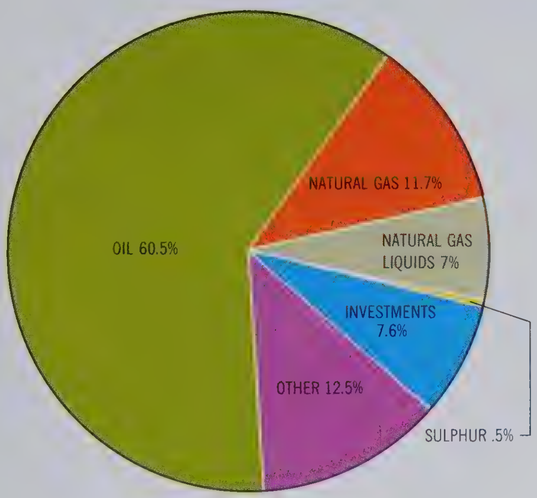
Sulphur sales were 48,884 long tons compared to 48,531 long tons in 1972. Prices continued to be low, but a market improvement is forecast for 1974.

EMPLOYEES

During the year the pension actuary submitted an actuarial report of the Pension Plan covering the three year period ending January 1, 1973. The Pension Trust Fund at that time was fully funded and therefore met the solvency test as specified by the Pension Benefits Act of Alberta. At the end of 1973 the Fund exceeded $7.5 million and pension benefits were being paid to 49 former employees. As has been the practice of the Company over the last few years, special payments to pensioners were made out of general revenues recognizing the increase in the Consumer Price Index.

At the year end the Company and its subsidiaries employed approximately 600 persons. During the year service milestones were recognized for 25 employees whose collective service totalled 480 years and which individually ranged from 10 to 35 years.

SOURCES OF 1973 GROSS REVENUE



FINANCIAL REVIEW

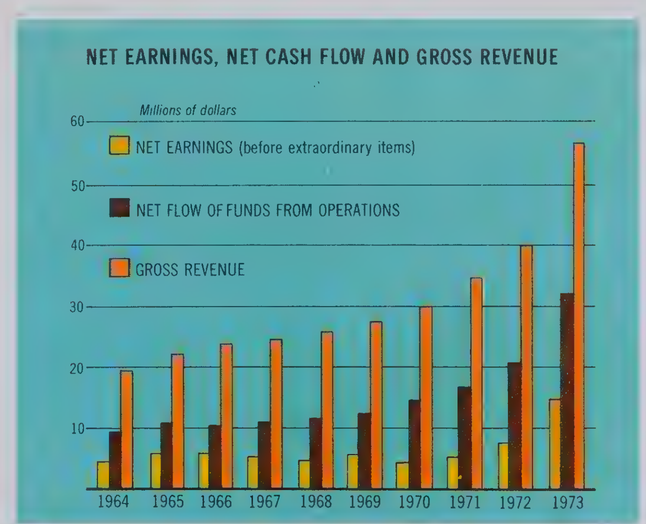
Home Oil's 1973 gross revenue, at $56,014,000, increased 40.3% from the $39,933,000 recorded in 1972. This increase resulted from the higher market demand for crude oil and natural gas together with increased prices realized on these products.

Net earnings before extraordinary items amounted to $14,512,000 or $1.90 per share, up 104.7% from the 1972 restated figures of $7,090,000 or $0.96 per share. The restatement of the 1972 results arises from the adoption, with retroactive effect, of a policy of amortizing certain exploration expenditures on a systematic basis. This change in accounting methods is more fully explained in Note 1 to the financial statements. The increase in 1973 earnings is attributable to the higher revenues combined with a reduction in interest costs, partially offset by increases in operating expenses, depletion and income taxes. Operating expenses in 1973 include the Government of Alberta's mineral reserve tax in the amount of $1,910,000 which the Company elected to pay in lieu of increased royalties.

After an extraordinary loss of $295,000, net earnings for the year amounted to $14,217,000 or $1.86 per share, an increase of 53.1% from the 1972 restated results of $9,288,000 or $1.26 per share. Cash flow from operations increased 52.5% to $31,845,000 or $4.18 per share in 1973 as compared to $20,885,000 or $2.84 per share in 1972. Dividends of $0.50 per share were declared on the Class A and Class B shares.

During 1973, Home made two significant changes in its investment in other companies. The previous holdings of 53,440 $2.80 Convertible Preferred shares of Atlantic Richfield Company were disposed of for $3,191,000, resulting in an extraordinary loss on disposal of $295,000, arising primarily on exchange rate differences between the Canadian and U.S. dollars at acquisition and disposal dates. Home acquired from a number of institutional investors 475,850 common shares of Scurry-Rainbow Oil Limited at an aggregate cost of $10,200,000. Payment for these shares consisted of $6,726,000 cash and 75,000 Class A shares of the Company which were valued on issue at $46.32 per share. The holding in Scurry-Rainbow represents approximately 18% of the total common shares outstanding.

In the second half of 1973, the Company called for redemption its 5½% Convertible Subordinated Debentures due February 1, 1992. As a result, $24,815,000 of the $25,000,000 principal amount outstanding was converted into 652,543 Class A shares of the Company and the remaining $185,000 was redeemed for cash. This has significantly improved the Company's long-term debt position and cash flow will improve as a result of lower interest charges.



CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For The Year Ended December 31, 1973

	1973	1972
Funds Were Obtained From		
Net earnings before extraordinary items	$14,512,000	$ 7,090,000
Adjustment for non-cash items and difference between earnings of 50% owned companies and dividends received	17,333,000	13,795,000
Net flow of funds from operations	31,845,000	20,885,000
Sale of investments	3,191,000	12,590,000
Issuance of capital stock (Note 5)		
On conversion of debt	24,223,000	—
Other	4,844,000	129,000
Long-term borrowings	—	24,500,000
Net decrease in other non-current assets	414,000	45,000
	$64,517,000	$58,149,000
Funds Were Used For		
Property, plant and equipment	$21,629,000	$14,220,000
Reduction in long-term debt	36,144,000	13,864,000
Dividends	3,875,000	3,690,000
Investments in quoted securities	10,200,000	—
	71,848,000	31,774,000
Increase (Decrease) in Working Capital	(7,331,000)	26,375,000
	$64,517,000	$58,149,000

CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended December 31, 1973

	1973	1972
Revenue		
Operating revenue	$51,503,000	$35,732,000
Investment income (Note 1)	4,511,000	4,201,000
	56,014,000	39,933,000
Expense		
Operating	8,161,000	5,538,000
General and administrative	4,304,000	4,062,000
Depletion	12,846,000	10,529,000
Depreciation	2,197,000	2,678,000
Interest and expense on long-term debt	3,681,000	4,601,000
Other interest	130,000	273,000
	31,319,000	27,681,000
Net earnings before provision for income taxes	24,695,000	12,252,000
Provision For Income Taxes (Note 1)		
Current	6,786,000	3,673,000
Deferred	3,397,000	1,489,000
	10,183,000	5,162,000
Net Earnings before extraordinary items	14,512,000	7,090,000
Extraordinary Items		
Gain (loss) on sale of investments	(295,000)	4,898,000
Provision for write-down of investment in Lockton Gas Plant	—	(2,700,000)
	(295,000)	2,198,000
Net Earnings	$14,217,000	$ 9,288,000
Earnings Per Share (based on average number of shares outstanding)		
Net earnings before extraordinary items	$1.90	$ .96
Extraordinary items	(.04)	.30
Net Earnings	$1.86	$1.26

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For The Year Ended December 31, 1973

	1973	1972
Balance, At Beginning of Year		
As previously reported	$45,369,000	$39,026,000
Adjustment for change in accounting for exploration costs (Note 1)	(1,544,000)	(799,000)
As adjusted	43,825,000	38,227,000
Net Earnings	14,217,000	9,288,000
	58,042,000	47,515,000
Dividends Declared		
Class A shares	2,589,000	2,404,000
Class B shares	1,286,000	1,286,000
	3,875,000	3,690,000
Balance, At End of Year	$54,167,000	$43,825,000

CONSOLIDATED BALANCE SHEET as at DECEMBER 31, 1973

Assets

	1973	1972
CURRENT ASSETS		
Cash	$ 1,614,000	$ 14,874,000
Accounts receivable	15,189,000	9,745,000
Inventories, at lower of cost and realizable value	2,175,000	2,090,000
	18,978,000	26,709,000
INVESTMENTS		
Quoted securities (Note 2)	72,195,000	65,482,000
50% owned companies (Note 1)	6,230,000	4,781,000
Partnership interest	1,189,000	1,189,000
	79,614,000	71,452,000
PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1 and 3)	276,307,000	256,752,000
Accumulated depletion and depreciation	102,045,000	89,316,000
	174,262,000	167,436,000
OTHER ASSETS (Note 5)	1,356,000	2,061,000
	$274,210,000	$267,658,000

Approved on behalf of the Board:

Director.

Director.

Liabilities

	1973	1972
CURRENT LIABILITIES		
Bank indebtedness — secured	$ 1,699,000	$ 1,547,000
Accounts payable and accrued charges	11,076,000	8,102,000
Dividends payable	2,033,000	1,841,000
Income taxes payable	1,205,000	2,544,000
Current maturities on long-term debt	6,017,000	8,396,000
	22,030,000	22,430,000
PREPAYMENT OF FUTURE NATURAL GAS SALES	—	1,680,000
LONG-TERM DEBT (Notes 2 and 4)	32,466,000	66,897,000
ACCUMULATED TAX REDUCTION APPLICABLE TO FUTURE YEARS (Note 1)	31,974,000	28,320,000

Shareholders' Equity

	1973	1972
CAPITAL STOCK (Note 5)		
Authorized		
1,000,000 Preferred shares, par value $50 each		
7,000,000 Class A shares of no par value		
5,000,000 Class B shares of no par value		
Issued		
5,569,287 Class A shares (1972 — 4,791,285)	112,954,000	83,887,000
2,572,905 Class B shares (1972 — 2,572,905)	20,619,000	20,619,000
	133,573,000	104,506,000
RETAINED EARNINGS	54,167,000	43,825,000
	187,740,000	148,331,000
	$274,210,000	$267,658,000

NOTES TO 1973 CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Accounting Policies

i) Principles of Consolidation

a) The consolidated financial statements include the accounts of all companies in which the Company has ownership of more than 50% of the voting capital stock.

b) The Company follows the equity method of accounting for its investments in 50% owned companies and a 20% partnership interest. Under this method the Company's investment in such entities is carried on the balance sheet at cost plus its share of undistributed earnings or losses. The Company's share of the net earnings of these entities is included in investment income in the consolidated statement of earnings.

c) Current assets and current liabilities of foreign subsidiaries were converted to Canadian dollars using the exchange rate at the date of the balance sheet. Other assets and liabilities were converted at the rate in effect at the time the original transactions took place. Revenue and expense items were converted using average rates of exchange throughout the year.

ii) Full Cost Method of Accounting

The Company and its subsidiaries follow the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized and charged against income as set out below. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. The costs are accumulated in cost centres as follows:

a) North America — Canada (excluding Athabasca Tar Sands) and the United States.

b) Northwestern Europe — the United Kingdom and the Northwestern European Continental Shelf which presently encompasses all sectors of the North Sea, the Celtic Sea and the English Channel.

c) Other Areas — a separate cost centre for the Athabasca Tar Sands and for each foreign area in which the Company is engaged in exploration activities.

Costs accumulated in the North America cost centre are depleted using the unit of production method based upon estimated proven developed reserves, as determined by Company engineers. In calculating depletion, natural gas and sulphur reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

Prior to 1973, expenditures in Other Areas were deferred pending the results of exploration still in progress in each area, and costs accumulated in the Northwestern Europe cost centre were being depleted on the unit of production basis on reserves since determined to be uneconomic. During 1973, the Company adopted with retroactive effect a policy of amortizing expenditures in the areas outlined in (b) and (c) above on a straight line basis over varying periods. Under this policy, should exploration in a particular area prove successful, the unamortized balance in that cost centre will be depleted on the unit of production basis. Should the area prove to be unproductive, the unamortized balance in that cost centre will be written off to income (included in depletion). This change in accounting had the effect of decreasing earnings for 1973 by $2,670,000 ($0.35 per share); 1972 earnings were previously reported at $10,033,000 ($1.36 per share).

iii) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Company makes full provision for income taxes deferred as the result of claiming capital cost allowances and exploration and development costs in excess of the amounts provided for depreciation and depletion in the accounts.

Note 2 Investment in Quoted Securities

	Number of Shares	Cost	Quoted Market Value December 31, 1973
Atlantic Richfield Company — common shares	422,936	$49,320,000	$45,801,000
TransCanada PipeLines Limited — common shares	500,000	12,675,000	15,250,000
Scurry-Rainbow Oil Limited — common shares	475,850	10,200,000	9,695,000
		$72,195,000	$70,746,000

The shares of TransCanada PipeLines Limited and Atlantic Richfield Company are pledged to secure certain long-term debt and the Company's bank indebtedness outstanding from time to time.

Note 3 Property, Plant and Equipment

The following is a summary of the cost of property, plant and equipment and the related accumulated depreciation and depletion as at December 31, 1973:

	Cost of Assets	Accumulated Depletion* and Depreciation	Net
Petroleum and natural gas leases and rights, including exploration and development (Note 1)			
— North America (excluding Athabasca Tar Sands)	$212,732,000	$ 79,051,000*	$133,681,000
— Northwestern Europe	9,304,000	2,245,000*	7,059,000
— Other Areas	1,444,000	340,000*	1,104,000
Production equipment	33,120,000	11,977,000	21,143,000
Land, buildings, pipeline property and other equipment	19,707,000	8,432,000	11,275,000
	$276,307,000	$102,045,000	$174,262,000

Note 4 Long-Term Debt

	December 31, 1973	1972
Home Oil Company Limited		
6½% Secured Bonds, due January 31, 1975 ($700,000 U.S.)*	$ 666,000	$ 1,760,000
9.45% Secured Bonds, Series A, due September 30, 1973	—	745,000
8.20% Secured Bonds, Series B, due April 30, 1980 ($13,063,000 U.S.)+	13,857,000	18,009,000
6⅞% Secured Bonds, due January 1, 1983 ($4,035,000 U.S.)*	4,359,000	5,439,000
6¼% Collateral Trust Bonds, due April 1, 1983 (subject to annual sinking fund payments)	10,000,000	11,000,000
6¾% Mortgage, maturing January 1, 1978+	558,000	675,000
5½% Convertible Subordinated Debentures, due February 1, 1992	—	25,000,000
Bank Production Loan, evidenced by demand note (payable in 24 equal quarterly instalments) due October 1, 1976	5,000,000	6,667,000

Note 4 (continued)

United Oils, Limited		
9.35% Secured Bonds, Series A, due November 30, 1973	—	347,000
8.10% Secured Bonds, Series B, due March 31, 1980 ($3,785,000 U.S.)+	4,024,000	4,473,000
Home Petroleum Corporation		
Bank Loan ($21,000 U.S.)	19,000	1,178,000
	38,483,000	75,293,000
Less: Current minimum maturities	6,017,000	8,396,000
	$32,466,000	$66,897,000

* Subject to monthly payments based on production from pledged properties.
+ Payable in monthly instalments.

All U.S. issues are recorded on the balance sheet in Canadian dollars based on the exchange rate in effect at the date of receipt of the proceeds.

The estimated amount of long-term debt maturities and sinking fund requirements for the five years subsequent to 1973 are as follows: 1974 - $6.0 million, 1975 - $6.1 million, 1976 - $6.3 million, 1977 - $5.5 million, 1978 - $4.8 million.

Note 5 Capital Stock

i) Dividends

There are restrictions on the payment of dividends on the Class B shares and of dividends in excess of 25¢ per annum on the Class A shares under the provisions of the deeds of trust and mortgage securing certain of the outstanding long-term debt. Under the most restrictive provision, the amount permitted thereunder for payment of dividends was in excess of the retained earnings at December 31, 1973.

ii) Shares Reserved for Exercise of Warrants

There were 109,965 Class A shares reserved at December 31, 1973 for issuance upon the exercise, on or before April 30, 1980; of warrants to purchase 76,975 shares at $14.55 U.S. per share and 32,990 shares at $17.66 U.S. per share.

iii) Options to Purchase Capital Stock

As at December 31, 1973, there were 91,850 Class A shares reserved for exercise of employee stock options. These options are exercisable at $20, $29.625 and $55 per share and expire in 1980, 1982 and 1983 respectively. The exercise price was equal to the market price of the shares at the granting date. In the case of options granted to senior officers, the Company has agreed to accept notes in payment for the optioned shares. A summary of transactions relating to optioned shares is as follows:

Class A Shares	**Officers**	**Other Employees**	**Total**	**Consideration**
Outstanding January 1, 1973	—	59,909	59,909	—
Reclassification	11,370	(11,370)	—	—
Granted at $55	39,400	43,000	82,400	—
Exercised at $20	(1,500)	(11,409)	(12,909)	$ 258,180
Exercised at $29.625	(9,870)	(27,680)	(37,550)	1,112,419
Outstanding December 31, 1973	39,400	52,450	91,850	

All options were granted under the Officers' and Key Employees' Share Option Plan under which 22,600 Class A shares were reserved at December 31, 1973 for options that may be granted under the plan which terminates in 1979.

Note 5 (continued)

iv) Shares Issued During the Year

During 1973, 652,543 Class A shares were issued upon conversion of 5½% Convertible Subordinated Debentures in the principal amount of $24,223,000 (net of unamortized debt issue expense), and 75,000 Class A shares were issued for $3,474,000 in payment for quoted securities. An additional 50,459 Class A shares were issued on exercise of options — see above.

v) Share Purchase Notes

Other Assets at December 31, 1973 include non-interest bearing notes totalling $220,000 received in payment of 11,000 Class A shares of the Company subscribed for by officers pursuant to share option agreements.

Note 6 Contingent Liabilities

The Company has guaranteed the indebtedness and certain other obligations of associated entities to the extent of approximately $10.9 million.

Note 7 Remuneration of Directors and Officers

During 1973 the Company and its subsidiaries paid remuneration of $97,000 to the Company's twenty directors in their capacity as directors, and remuneration of $325,000 to the Company's eleven officers in their capacity as officers. Three of the officers were also directors of the Company.

Note 8 Subsequent Event

Subsequent to December 31, 1973, a subsidiary of the Company entered into an agreement to acquire L.P.G. storage facilities for approximately $9 million.

AUDITORS' REPORT

To the Shareholders
Home Oil Company Limited

We have examined the consolidated balance sheet of Home Oil Company Limited and subsidiaries as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of Home Oil Company Limited (the parent company) and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in accounting for exploration costs as explained in Note 1 to the consolidated financial statements.

Calgary, Alberta.
February 22, 1974.

Riddell, Stead & Co.
Chartered Accountants.

A TEN YEAR REVIEW/1964 - 1973

			1973	1972
Earnings and Net Flow of Funds	Gross Revenue	$	56,014,000	39,933,00
	Net Earnings (before Extraordinary Items)	$	14,512,000	7,090,00
	Per Share	$	1.90	.9
	Extraordinary Items	$	(295,000)	2,198,00
	Per Share	$	(.04)	.3
	Net Flow of Funds from Operations	$	31,845,000	20,885,00
	Per Share	$	4.18	2.8
Balance Sheet	Working Capital (Deficiency)	$	(3,052,000)	4,279,00
	Investment in other Companies	$	79,614,000	71,452,00
	Property, Plant and Equipment — Net	$	174,262,000	167,436,00
	Long-Term Debt (Less Current Maturities)	$	32,466,000	66,897,00
	Deferred Income Taxes	$	31,974,000	28,320,00
	Capital Stock	$	133,573,000	104,506,00
	Retained Earnings	$	54,167,000	43,825,00
Exploration and Development	Exploration Expenditures	$	17,720,000	10,272,00
	Development Expenditures	$	3,478,000	5,254,00
	Gross Exploration Acreage		27,651,000	21,618,00
	Net Exploration Acreage		7,340,000	5,797,00
Drilling Activity	Gross Working Interest Wells Drilled		72	3
	Net Oil Wells		4	
	Net Gas Wells		2	
	Net Dry Wells		17	
	(Excludes wells drilled by others under farmout agreements)			
Proven Developed Reserves	Crude Oil and Natural Gas Liquids — barrels		155,701,000	167,967,00
	Natural Gas — thousand cubic feet		726,228,000	807,701,00
	Sulphur — long tons (*not available)		1,662,900	1,712,70
Production and Pipeline Operations	Crude Oil and Natural Gas Liquids Production — barrels per day		36,030	29,38
	Natural Gas Sales — thousand cubic feet per day		121,495	115,16
	Sulphur Sales — long tons		48,884	48,53
	Cremona Pipe Line Division			
	Daily Average Gatherings — barrels		45,817	43,41
	Federated Pipe Lines Ltd. — (50% owned)			
	Daily Average Gatherings — barrels		330,420	258,90
Shares and Dividends	Dividends Declared Per Class A Share	$	.50	.5
	Dividends Declared Per Class B Share	$	.50	.5
	Number of Shares Outstanding — end of year		8,142,000	7,364,00
	Number of Shareholders		11,100	11,10

NOTES: (1) Earnings per share are calculated on the basis of average number of shares outstanding during the year

1971	1970	1969	1968	1967	1966	1965	1964
34,252,000	30,008,000	27,709,000	25,272,000	24,092,000	23,410,000	22,075,000	19,438,000
4,664,000	4,057,000	5,003,000	4,320,000	4,715,000	5,331,000	5,495,000	4,074,000
.65	.58	.73	.81	.93	1.07	1.12	.86
838,000	1,390,000	(466,000)	6,343,000	403,000	—	516,000	1,012,000
.12	.20	(.07)	1.18	.08	—	.11	.21
15,964,000	14,005,000	12,390,000	11,610,000	11,130,000	10,838,000	11,273,000	9,718,000
2.24	1.99	1.81	2.16	2.20	2.17	2.30	2.04
(22,096,000)	(28,304,000)	(18,956,000)	(42,315,000)	(3,529,000)	4,762,000	(6,945,000)	3,574,000
76,949,000	79,692,000	103,861,000	93,987,000	64,814,000	52,670,000	50,590,000	36,545,000
171,057,000	164,395,000	154,230,000	120,455,000	106,572,000	101,175,000	91,978,000	85,633,000
55,760,000	59,779,000	89,009,000	64,092,000	90,333,000	86,624,000	69,941,000	67,287,000
27,575,000	25,545,000	23,086,000	20,801,000	18,415,000	16,309,000	14,269,000	11,797,000
104,377,000	94,919,000	93,732,000	54,758,000	35,092,000	34,352,000	32,962,000	32,186,000
38,227,000	36,331,000	34,401,000	33,366,000	25,578,000	22,939,000	20,069,000	16,475,000
9,194,000	14,525,000	31,564,000	15,282,000	6,597,000	6,387,000	5,296,000	3,495,000
4,265,000	3,253,000	3,887,000	1,621,000	2,434,000	4,032,000	2,876,000	3,259,000
10,294,000	9,334,000	9,176,000	8,319,000	6,872,000	6,236,000	5,762,000	5,759,000
4,566,000	4,852,000	4,577,000	4,640,000	3,701,000	3,118,000	2,382,000	2,035,000
54	14	38	39	49	54	78	52
4	0	1	0	8	3	11	16
5	2	4	4	3	6	3	1
12	4	11	15	13	11	21	8
177,878,000	184,122,000	184,375,000	186,016,000	180,980,000	180,522,000	181,484,000	168,609,000
851,835,000	958,903,000	963,368,000	937,625,000	981,855,000	998,147,000	804,286,000	698,729,000
1,724,600	1,765,600	1,730,100	1,775,900	1,945,300	1,499,300	*	*
24,997	21,737	19,759	18,629	16,755	15,678	14,987	13,599
106,603	95,799	78,242	72,779	67,274	63,015	68,624	65,789
54,743	47,333	38,333	45,815	50,614	24,410	17,655	23,894
38,854	39,670	38,267	39,268	37,193	36,265	36,348	33,496
211,701	184,175	160,408	156,001	140,235	128,462	110,719	82,252
.50	.50	.50	.50	.50	.50	.50	.35
.50	.50	.50	.50	.50	.50	.50	.35
7,358,000	7,065,000	7,002,000	6,102,000	5,091,000	5,046,000	4,936,000	4,842,000
12,300	15,300	12,600	13,200	13,000	13,700	13,900	12,800

(2) Above data incorporates retroactive adjustments.

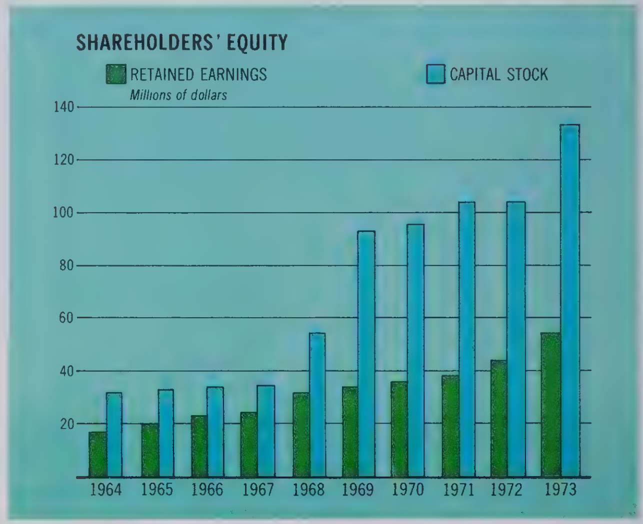
ABOUT HOME'S SHARES

The Company has two classes of shares outstanding, Class A and Class B, which are listed on four Canadian stock exchanges and on the American and Pacific Coast exchanges in the United States.

Class A shares are entitled to a fixed cumulative dividend of $0.25 per year in priority to dividends on the Class B shares. After this dividend on the Class A shares, dividends of $0.25 per share may be paid on the Class B shares, and any further dividends in any year are payable equally on the Class A and Class B shares. Therefore, as long as the Company continues to pay dividends of at least $0.25 per year on the Class A and Class B shares, the shares of both classes participate equally in all dividends paid. Only the Class B shares carry voting rights under normal circumstances.

The Company is controlled by The Consumers' Gas Company via its ownership at December 31, 1973 of about 95% of the outstanding shares of Cygnus Corporation Limited. Cygnus in turn holds one million Class B shares of Home. Consumers' also directly owns 276,788 Class B shares of Home, bringing its effective control of such shares to 1,276,788 or 49.6% at December 31, 1973.

During 1973, the outstanding warrants covering 109,965 Class A shares of Home were purchased by Cygnus Corporation Limited from two institutional investors.



	Class A 1973	Class A 1972	Class B 1973	Class B 1972
Shares Authorized	7,000,000		5,000,000	
Shares Issued at December 31	5,569,287	4,791,285	2,572,905	2,572,905
Shares Reserved For:				
Debenture Conversion	—	657,895	—	—
Warrants	109,965	109,965	—	—
Options	114,450	164,909	—	—
Number of Shareholders	9,905	9,896	3,022	3,207
Dividends Declared Per Share	$0.50	$0.50	$0.50	$0.50
Volume of Shares Traded	1,858,998	1,792,706	374,769	211,203
Distribution of Shares at December 31				
Canada	88.2%	85.5%	95.9%	95.7%
United States	11.0	13.8	3.6	3.8
United Kingdom	.5	.4	.1	.1
Other	.3	.3	.4	.4
	100.0	100.0	100.0	100.0
Federal Government Valuation Day Values	$33.38/Share		$33.00/Share	
Price Ranges				
Toronto Stock Exchange				
High	$58	$43 ¾	$53	$41
Low	35	29 ⅝	33 ⅞	29 ⅝
American Stock Exchange				
High	$57 ¾	$43 ¼	$52 ⅜	$41 ⅜
Low	35 ⅛	30 ¼	36	31

Officers

A. G. S. GRIFFIN
Chairman of the Board

R. F. PHILLIPS
President and Chief Executive Officer

M. P. PAULSON
Executive Vice-President and General Manager

R. B. COLEMAN
Senior Vice-President, Secretary and General Counsel

I. M. DRUM
Vice-President, Special Projects

R. E. HUMPHREYS
Vice-President, Exploration

W. D. LUNDBERG
Vice-President, Producing Operations

B. B. ROMBOUGH
Vice-President, Finance

W. T. WILKINSON
Vice-President

D. E. DEAKIN
Treasurer

B. F. MacNEILL
Comptroller

C. B. CLARK
Assistant Treasurer

F. G. MITCHELL
Assistant Secretary

Senior Management

J. P. CRONE
Managing Director, Home Oil of Canada Limited

G. FONG
General Manager, Exploration

J. H. GEDDES
Manager, Economics and Corporation Planning

D. G. REYBURN
Vice-President and General Manager,
Home Petroleum Corporation

Auditors
Riddell, Stead & Co.

Solicitors
Macleod Dixon
Calgary, Alberta

Dunnington, Bartholow & Miller
New York, New York

Transfer Agents
Crown Trust Company
The Chase Manhattan Bank

Registrars
Crown Trust Company
The Canadian Bank of Commerce Trust Company

Listings
Toronto Stock Exchange
Vancouver Stock Exchange
Calgary Stock Exchange
Montreal Stock Exchange
American Stock Exchange
Pacific Coast Stock Exchange

Active Subsidiary Companies
Home Oil of Canada Limited
Home Oil Malta Limited
Home Oil Italiana S. p. A.
Home Petroleum Corporation
Oman Home Oil Limited
Foothills Oil and Gas Company, Limited
United Oils, Limited

50% Owned Companies
Federated Pipe Lines Ltd.
Crownco Holdings Limited

Head Office
304 Sixth Avenue S.W.
Calgary, Alberta
T2P 0R4
Telephone (403) 266-7041

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	197
Shares Authorized	
Shares Issued at December 31	5,569
Shares Reserved For:	
Debenture Conversion	—
Warrants	109
Options	114
Number of Shareholders	9
Dividends Declared Per Share	$
Volume of Shares Traded	1,858
Distribution of Shares at December 31	
Canada	88.
United States	11.
United Kingdom	.
Other	.
	100.
Federal Government Valuation Day Values	
Price Ranges	
Toronto Stock Exchange	
High	$5
Low	3
American Stock Exchange	
High	$5
Low	3

Auditors
Riddell, Stead & Co.

Solicitors
Macleod Dixon
Calgary, Alberta
Dunnington, Bartholow & Miller
New York, New York

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Litho'd in Canada